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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 000678

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SUBJECT: PROMINENT OPPOSITION BUSINESSMAN'S VIEWS ON ROYG ECONOMY

Classified By: Classified by CDA Alan G. Misenheimer for reasons 1.5 B. and D.

11. (C) Summary: A prominent businessman believes civil service reform is the most important change that the Yemeni government must make to stem corruption. According to Islah party member and leading banking figure Mahfoodh Salem Shammakh, attempts by the government, World Bank and other lending agencies to reform the civil service have yet to force the ROYG to take tough decisions such as laying off workers and raising salaries. Shammakh also offered his views on Yemeni education and the effects of qat on the economy. End Summary

12. (C) Mahfoodh Salem Shammakh, Director of Shammakh and Company, cofounder of the Yemeni Commercial Bank, and prominent Islah Party moderate, outlined his ideas for reforming the Yemeni economy, including civil service reform, education overhaul, and land use reform. Shammakh is from Hadramaut, educated in Aden and a member of several economic committees, including the Ministry of Industry and Trade's World Trade Organization accession advisory committee and the Sanaa Chamber of Commerce.

Laws Help, but Civil Service Reform is Real Solution

13. (C) Shammakh supported passage of the anti-money laundering law by the Yemeni parliament, while acknowledging that his own accounting procedures may become more complicated. Shammakh explained that his sugar business suffered when a Lebanese merchant sold sugar in Yemen at below market price, but accounted for the sugar at the regular price, effectively laundering his money and harming Shammakh's own sugar sales. Shammakh said acts like this may be curtailed by the law, and his businesses may do better.

14. (C) Shammakh concluded saying, "the law will never be implemented." Shammakh contended that tribes make too much money smuggling drugs and antiquities to allow for effective implementation. He claimed that many of the tribes were smuggling Jewish texts out of the country, and in one instance a dealer in Singapore was willing to pay 15 million USD (sic) for a piece of ancient Hebrew scripture. For the tribes, this was too much money to forego and after a few attempts to enforce the law, the government, he believes, will lose interest in enforcement. Corruption by individuals in the government, he added, could be stopped, but civil service reform was the only solution.

15. (C) Citing his experience with corruption he said, "I'm a merchant, and I know what things cost. None of the Ministers could afford my refrigerators on their salaries, but they all have them." Shammakh continued by detailing the financial requirements of a high official, and concluded that there was no way a senior official could even afford food on the salary provided by the Ministry. The first step for reform is to trim the bloated ROYG workforce and the second step is to adequately compensate the workers the ROYG is able to keep. Admitting this may be a painful and long process, Shammakh said it was the most important factor in ending corruption in Yemen.

Ill-prepared Workers

16. (C) Turning to other problems of doing business in Yemen, he said, "I cannot find a secretary to hire." Complaining that the Yemeni education system focuses too much on impractical knowledge and little on career based education, he said he and his colleagues found it extremely difficult to find qualified people. He said to counter this, the Islah Party founded the Islahi Technical College to train students in computer and job skills. To his disappointment, the college has since become a university focused on producing engineers and has strayed from its original purpose of teaching job skills appropriate for the labor market in Yemen.

Qat: the "Evil of Evils"

17. (C) Qat, Shammakh said, was "the evil of evils." He blamed many Yemeni economic problems on Qat and the inability of the Ministry of Agriculture to encourage the growth of alternative crops. He said farmers needed micro-enterprise projects, and not long-term studies. Qat was taking valuable land and water that could be used for cash crops. Shammakh owns a tannery and said he was unable to get suitable hides in Yemen because people kill their cows too young. Blaming this also on qat, he said that people would rather grow qat than use the land to graze cattle or grow coffee or ginseng, all profitable commodities for Yemen. Shammakh himself left the coffee business because he was unable find land to grow enough beans to make production profitable.

Comment

18. (C) Comment: Shammakh focused his strong critique of the ROYG on the ministries themselves, and never once mentioned the Presidency. We have been reliably told that that President Saleh had asked Shammakh to join the ruling GPC, but that Shammakh told the President that he needed to stay in the Islah Party to keep it moderate. Shammakh politely answered all of Pol/Econoff's questions on money laundering, but took every opportunity to provide his own views on what ails the Yemeni economy. End Comment.

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